



University of Regina Master Trust

Financial Statements

For the Year Ended December 31, 2010



Provincial Auditor Saskatchewan

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SASKATCHEWAN

INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the University of Regina Master Trust, which comprise the statement of net assets as at December 31, 2010, and the statement of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

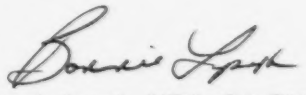
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets of the University of Regina Master Trust as at December 31, 2010, and the results of its operations and changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

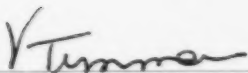
Regina, Saskatchewan
May 4, 2011

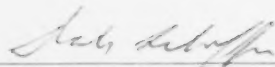
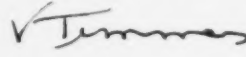

Bonnie Lysyk, MBA, CA•CIA
Provincial Auditor

University of Regina Master Trust
Statement of Net Assets
As at December 31

	2010	2009
Assets		
Investments (Notes 1(a), 5 & 8):		
Short-term investments	\$ 5,654,672	\$ 3,457,039
Bonds and debentures	104,506,436	102,743,049
Equities	190,263,584	180,438,807
Mortgages	7,765,652	6,658,377
Real estate	23,766,928	18,968,986
	<u>331,957,272</u>	<u>312,266,258</u>
Investment income receivable	572,564	678,352
Cash	36,154	96,190
	<u>\$ 332,565,990</u>	<u>\$ 313,040,800</u>
Liabilities	<u>-</u>	<u>-</u>
Net Assets	<u>\$ 332,565,990</u>	<u>\$ 313,040,800</u>
Unitholders' Equity (Note 3)		
Academic & Administrative Employees' Pension Plan	\$ 268,654,643	\$ 250,698,599
Non-Academic Employees' Pension Plan	<u>63,911,347</u>	<u>62,342,201</u>
	<u>\$ 332,565,990</u>	<u>\$ 313,040,800</u>
Net Asset Value Per Unit	<u>\$ 29.75</u>	<u>\$ 27.49</u>

Approved by the Board of Governors


Chair, Board of Governors


for Vice President (Administration)


The accompanying notes are an integral part of these financial statements

University of Regina Master Trust
Statement of Operations and Changes in Net Assets
For the Year Ended December 31

	2010	2009
Investment Income		
Interest	\$ 5,274,821	\$ 5,341,753
Dividends	4,782,233	4,981,806
Real estate	1,069,369	1,145,589
Net realized gain (loss) on sale of investments (Note 6)	3,352,508	(6,935,368)
Net unrealized gain on investments	<u>10,859,419</u>	<u>37,256,282</u>
	25,338,350	41,790,062
Expense		
Trustee fees	<u>492</u>	<u>22,677</u>
Net income	25,337,858	41,767,385
Value of Master Trust units issued (Note 3c and Note 4)	505,911	148,045
Payments on redemption of Master Trust units (Note 3c and Note 4)	<u>(6,318,579)</u>	<u>(5,818,994)</u>
Decrease in Net Assets	19,525,190	36,096,436
Net Assets, Beginning of Year	<u>313,040,800</u>	<u>276,944,364</u>
Net Assets, End of Year	<u><u>\$ 332,565,990</u></u>	<u><u>\$ 313,040,800</u></u>

The accompanying notes are an integral part of these financial statements

University of Regina Master Trust
Notes to the Financial Statements
December 31, 2010

1. Summary of Significant Accounting Policies

On November 30, 1995, the University of Regina entered into an agreement with a trustee. This agreement creates a single common fund, called the Master Trust.

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

a) Investments

Investments in bonds and equities are recorded at fair values which are determined by reference to closing year end quoted bid prices from recognized security dealers.

Short-term investments are recorded at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Investments in real estate are recorded at fair values using market values from independent appraisals.

Investments in mortgages are recorded at their net present value by discounting stated rates of return to current market rates of return which approximates fair values.

Pooled funds are recorded at fair value based on the net asset value per unit of the underlying investments on the last valuation date.

The change in the fair value of investments during the year is reflected on the Statement of Operations and Changes in Net Assets as net unrealized gain on investments.

Investments denominated in foreign currency are translated at the exchange rate in effect at year end. Investment transactions and realized gains and/or losses are translated at the exchange rate in effect at the transaction date. Unrealized gains and losses resulting from exchange differences are included in the determination of the change in fair value of investments.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded as of the trade date.

b) Receivables/Payables

These financial instruments are non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates carrying value.

University of Regina Master Trust
Notes to the Financial Statements
December 31, 2010

c) Use of estimates

In preparing the financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities. Significant estimates are used primarily in the determination of the fair value of investments and investment related receivables and liabilities. Actual results could differ from those estimates, which may impact the results reported in future periods.

2. Master Trust Administration

Under the Master Trust Agreement, the trustee agrees to hold, invest, administer and distribute the assets of the Master Trust in accordance with the provisions of the agreement.

The functions of custody and execution of investment transactions for the Master Trust have been segregated. The University of Regina has appointed several investment managers to provide investment instructions to the trustee. Under the agreement with the trustee, the trustee maintains custody of the Master Trust assets, but may only invest the Master Trust assets as authorized by the investment managers.

3. Description of the Master Trust

The following description of the Master Trust is a summary only. The Master Trust is a segregated pooled fund. For more information, reference should be made to the Master Trust Agreement.

a) General

On December 1, 1995, the investment portfolios of the University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans were combined into a Master Trust to improve investing opportunities. Each plan holds units in the Master Trust rather than holding individual assets.

b) Initial Allocation of Units

Upon the establishment of the Master Trust, the trustee divided the Master Trust into original units with a value of \$10 each. The University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans received units of the Master Trust based on this original unit value in proportion to the market value at December 1, 1995, of the assets transferred into the Master Trust on this date.

c) Issuance and Redemption of Units

The Master Trust issues additional units to the Pension Plans when assets are transferred from the Plans, or at month end when net income is distributed to the Plans. Units are distributed on the last business day of the trustee's head office in the month or any other day as the trustee in its sole discretion may determine.

Units in the Master Trust are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the underlying investments divided by the total number of units outstanding.

University of Regina Master Trust
Notes to the Financial Statements
December 31, 2010

Units of the Master Trust may be redeemed by a pension plan at the net asset value per unit.

4. Unitholders' Equity

The number of units issued and redeemed during the year were as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	11,386,334.967	11,620,265.693
Issued during the year	18,378.346	5,878.675
Redeemed during the year	<u>(227,210.104)</u>	<u>(239,809.401)</u>
Balance, end of year	<u>11,177,503.209</u>	<u>11,386,334.967</u>

The number of units held by participating pension plans at the end of the year were as follows:

	<u>2010</u>	<u>2009</u>
Academic & Administrative Employees	9,029,450.474	9,118,745.254
Non-Academic Employees	<u>2,148,052.735</u>	<u>2,267,589.713</u>
Balance, end of year	<u>11,177,503.209</u>	<u>11,386,334.967</u>

5. Financial Risk Management

Based on the investment objectives set by the participating pension plans, the Master Trust invests cash flows from the pension plans. The nature of the Master Trust's operations results in a statement of net assets that consists primarily of financial instruments. The risks that arise are market risk, (consisting of interest rate risk, foreign exchange risk and equity price risk), credit risk and liquidity risk.

Significant financial risks are related to the investments. These financial risks are managed by having an investment policy, which is approved by the Board of Governors. The investment policy provides guidelines to the Master Trust's investment managers for the asset mix of the portfolio regarding the quality and quantity of fixed income investments, real estate and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives (such as options, futures, and forward contracts) are allowed within the Master Trust to protect against losses from changes in exchange rates and market indices; and for non-hedging purposes, as a substitute for direct investment. The investment policy prevents the use of derivatives for speculative trading or to create a portfolio with leverage.

University of Regina Master Trust
Notes to the Financial Statements
December 31, 2010

a) **Market Risk**

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest Rate Risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Master Trust's cash flows, financial position and income. This risk arises from short-term changes in nominal interest rates that cause differences in the timing and amount of cash flows related to the investments. Interest rate risk is managed by investing in fixed income investments (short-term investments, bonds and debentures, mortgages) of various durations. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase the value of the fixed income investments by \$ 7,200,000 at December 31, 2010, representing 6.07% of the \$ 117,926,760 fair value of these investments.

Foreign Exchange:

The Master Trust is subject to changes in the US/Canadian dollar exchange rate for US denominated investments. Also, the Master Trust is exposed to EAFE (Europe, Australasia and Far East) currencies and global currencies (including US, Non-North American and Canadian) through its investment in the pooled Non-North American (NNA) equity fund and pooled global equity fund. Exposure to US equities, Non-North American equities, and global equities is limited to a maximum 16%, 18%, and 12% respectively each of the total of the fair value of the total investment portfolio. At December 31, 2010 the Master Trust's exposure to US equities was 15.5% (2009 – 14.8%) and its exposure to Non-North American equities (including global equities) was 23.7% (2009 – 24.7%).

At December 31, 2010, a 10% appreciation in the Canadian dollar versus US dollar exchange rate would result in approximately a \$ 5,200,000 decrease in investments. A 10% weakening in the Canadian dollar versus EAFE currencies would result in approximately a \$ 7,900,000 increase in investments.

No more than 10% of the fair value of the bond and debentures portfolio shall be invested in bonds of foreign issuers.

Equity Prices:

	Market Value	
	2010	2009
Common Shares and Pooled Funds – Canadian	\$ 59,761,218	\$ 56,769,752
Pooled Funds – Global	29,876,623	28,660,849
Pooled Funds – NNA	49,017,268	48,813,686
Pooled Funds – US	51,608,475	46,194,520
	<u>\$ 190,263,584</u>	<u>\$ 180,438,807</u>

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The Master Trust is exposed to changes in equity prices in Canadian, US, and EAFE markets. Equities, including equity pooled funds, comprise 57.31% (2009 – 57.82%) of the fair value of the Master Trust's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the fair value of the Master Trust's total investment portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation. Investments in pooled funds do not exceed 10% of the fair value of that fund.

The following table indicates the approximate change that would be expected to the total investment portfolio based on changes in the Master Trust's benchmark indices as at December 31, 2010:

	10% increase	10% decrease
Canadian Equities	\$ 6,000,000	\$ (6,000,000)
US Equities	\$ 5,200,000	\$ (5,200,000)
NNA Equities	\$ 4,900,000	\$ (4,900,000)
Global Equities	\$ 3,000,000	\$ (3,000,000)

b) Credit Risk

Credit risk arises from the potential for an investee to fail or for a counterparty (e.g. mortgager) to default on its contractual obligations to the Master Trust. The Master Trust limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe the investments below are based on the Dominion Bond Rating Service and/or the Standard and Poor's Bond Rating Service.

Short-Term Investments

These investments are comprised of a pooled fund that holds investments mainly in corporate bonds and debentures with effective interest rates of 1.076% to 1.401% (2009 - 0.25% to 0.769%) and maturing within 4 to 101 days (2009 - 4 to 270 days). The investment policies of the participating pension plans state that investments must meet a minimum investment standard of "R-1", as rated by a recognized credit rating service.

Bonds and Debentures

The investment policies of the participating pension plans state that the minimum quality standard for individual bonds and debentures is 'B' as rated by a recognized bond rating agency at the time of purchase, and sets limits to the maximum notational amount of exposure with respect to any one issuer. Bonds rated 'BBB', 'BB' and 'B' may not be purchased if the purchase would raise holdings rated 'BBB' to 'B' inclusive to more than 15% of the fair value of the bond portfolio, with bonds rated below 'BBB' not to exceed 5% of the fair value of the bond portfolio at the time of purchase.

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The Master Trust holds the following investments in bonds and debentures:

Years to Maturity	2010						2009		
	Federal	Provincial	Pooled Funds	Total Fair Value	Yield to Maturity at Fair Value	Coupon Rate	Total Fair Value	Yield to Maturity at Fair Value	Coupon Rate
Under 5	\$ 3,719,593	-	60,622,561	64,342,154	1.15% - 2.41%	3.00% - 4.05%	\$ 63,509,486	0.35%	3.56% - 3.75%
5 - 10	5,422,472	8,492,032	-	13,914,504	3.01% - 4.05%	3.75% - 4.4%	9,603,541	3.61% - 4.25%	3.75% - 4.4%
Over 10	1,668,834	24,580,944	-	26,249,778	3.56% - 5.01%	4.60% - 8.50%	29,630,022	4.07% - 5.29%	4.0% - 8.5%
Market Value	\$ 10,810,899	33,072,976	60,622,561	104,506,436			\$ 102,743,049		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Credit ratings for bonds are as follows:

Credit Rating	2010		2009	
	Fair Value	Make up of Portfolio (%)	Fair Value	Make up of Portfolio (%)
AAA	\$ 15,952,597	15.27%	\$ 19,399,701	18.88%
AA	53,812,113	51.49%	46,277,747	45.04%
A	24,422,013	23.37%	28,395,198	27.64%
BBB	8,698,516	8.32%	7,911,654	7.70%
BB	1,060,533	1.01%	541,981	0.53%
B & Below	560,664	0.54%	216,768	0.21%
Total	<u>\$ 104,506,436</u>	<u>100.00%</u>	<u>\$ 102,743,049</u>	<u>100.00%</u>

Within bond investments there are no direct holdings other than the Government of Canada or a Canadian province. No one holding of a province is over 26.45% of the fair value of the bond portfolio. Securities of the Master Trust may not be loaned except within pooled funds where the pooled fund policy permits securities lending.

Fair Value

The Plan has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

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Notes to the Financial Statements
December 31, 2010

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Short-term investments	\$5,654,672	-	-	\$5,654,672
Bonds and Debentures	-	\$104,506,436	-	\$104,506,436
Equities	\$190,263,584	-	-	\$190,263,584
Mortgages	-	\$7,765,652	-	\$7,765,652
Real estate	-	\$23,766,928	-	\$23,766,928
Total	\$195,918,256	\$136,039,016	-	\$331,957,272

Real Estate

The Master Trust holds \$ 23,766,928 (2009 - \$ 18,968,986) in real estate. This represents 7.16% (2009 - 6.07%) of total investments. The investments in real estate consist of Canadian commercial property.

Mortgages

The investment policies of the participating pension plans state the investments in mortgage can be mortgages secured against Canadian real estate, mortgage-backed securities, or asset-backed securities.

c) Liquidity Risk

Liquidity risk is the risk that the Master Trust is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

6. Net Realized Gain (Loss) on Sale of Assets

	2010	2009
Proceeds from sale of investments	\$ 182,201,958	\$ 176,918,040
Return of capital on investments	2,350,161	-
	<u>184,552,119</u>	<u>176,918,040</u>

University of Regina Master Trust
Notes to the Financial Statements
December 31, 2010

	2010	2009
Cost of investments sold:		
Investments at cost, beginning of period	318,493,871	319,664,221
Cost of investments purchased	190,031,209	182,683,058
	508,525,080	502,347,279
Investments at cost, end of period	(327,325,469)	(318,493,871)
	181,199,611	183,853,408
Net realized gain (loss) on sale of investments	\$ 3,352,508	\$ (6,935,368)

7. Related Parties

The Master Trust is related to the University of Regina and the pension plans sponsored by the University.

All administrative expenses of the Master Trust are paid by the two major participating pension plans.

8. Investment Performance

The University has retained Phillips, Hager & North Ltd. as investment manager of the majority of the investments in the Master Trust. The University also contracts with Franklin Templeton Investments, Bentall Kennedy, BlackRock Asset Management Canada Limited, Mawer Investment Management Ltd., and Grantham, Mayo Van Otterloo & Co. LLC to be investment managers of specific types of investments in the Master Trust.

These investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the joint Academic and Administrative and Non-Academic Benefits Committee. It is these long-term investment performance objectives that are used to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire Master Trust portfolio is to out-perform a benchmark portfolio with weightings as follows:

<u>Asset Class</u>	<u>Representative Index</u>	<u>Weight</u>
Canadian equities	S&P/TSX Composite Index	16 %
U.S. equities	S&P 500 Index (Cdn \$)	7
U.S. equities	S&P 500 Index - Hedged	7
Non-North American equities	MSCI EAFE Index (Cdn \$)	15
Global equities	MSCI World Index (Cdn \$)	10
Real Estate	Investment Property Databank	10
Bonds	DEX Universe Bond Index	33
Short-term investments	91-day T-Bills	2
		<u>100 %</u>

The University engages the services of AON Hewitt, asset management consultants, to provide advice on the overall management of the Master Trust's investments and on

University of Regina Master Trust
Notes to the Financial Statements
December 31, 2010

the measurement of the Trust's performance. AON Hewitt reports to the joint Academic and Administrative and Non-Academic Benefits Committee quarterly on the investment performance against benchmarks over moving four-year periods.

The one year investment objective (the return of the benchmark portfolio) was 8.7% (2009 – 13.3%). For the year ending December 31, 2010, the Master Trust had a gross rate of return of 8.2% (2009 – 15.4%). For the four years ending December 31, 2010, the Master Trust had a gross rate of return of 2.1% (2009 – 3.3%) and benchmark return of 1.7% (2009 – 2.7%).